



UNIVERSITY
OF
JOHANNESBURG

Department of Commercial Accounting

Financial Accounting 3B

SUBJECT CODE: FAC33B3

Final Assessment Opportunity 2014

Date: 1 November 2014

Time: 180 minutes

Marks: 100

Assessors: S Adam
L Khumalo

Internal Moderator: Mr HS van der Watt

External Moderator: Ms F Ngwenya

INSTRUCTIONS:

This paper consists of **11** pages (including the cover page).

Answer all questions. **Show all calculations and workings clearly.**

Start each question on a new page in your answer book.

Silent, non-programmable calculators may be used.

Where applicable, round all calculations to the nearest Rand.

Question	Topic	Marks	Time
1	Theory – Various	13	23 minutes
2	Statement of cash flows	18	32 minutes
3	Consolidations at acquisition	12	22 minutes
4	Consolidations after acquisition	25	45 minutes
5	Financial Statement Analysis	16	29 minutes
6	Earnings per share	16	29 minutes
		100	180 minutes

Question 1**(13 marks)**

1.1 Provide definition for the following terms:

a) Control (3)

b) Subsidiary (2)

1.2 The movements in cash and cash equivalents for a period are classified into:

a) Cash flows from _____ activities.

b) Cash flows from _____ activities.

c) Cash flows from _____ activities. (3)

1.3 Name the three (3) main types of earnings per share. (3)

1.4 Name the two (2) manners in which the number of shares may be reduced. (2)

[13]

Question 2**(18 marks)**

Exclusia Limited is in the business of selling handbags. The following information was available:

Extract from the statement of profit and loss and other comprehensive income of Exclusia Limited for the reporting period ended 31 March 2014:

Income Statement			
	For: April 2013	To: March 2014	
Income Statement			
<u>Account</u>			<u>Actual</u>
Trading Income			
1000 (Sales)			1 892 754.70
Total Trading Income			1 892 754.70
Trading Expense			
2000 (Cost of Goods Sold)			1 480 777.27
2150 (Warranty Repairs)			11 000.00
Total Trading Expense			1 491 777.27
Gross Profit			<u>400 977.43</u>
Income			
3050 (Fixed Asset Disposal Profit)			16 666.67
3100 (Interest Received)			4 285.00
Total Income			20 951.67
Expense			
4050 (Advertising)			3 333.33
4150 (Bank Charges)			4 461.41
4300 (Depreciation)			182 688.50
4320 (Discount Allowed)			28 070.18
4360 (Electricity & Water)			22 030.71
4500 (Insurance)			2 631.58
4520 (Interest Paid)			74 999.99
4620 (Office Supplies)			1 052.63
4660 (Printing & Stat.)			3 666.66
4720 (Repairs & Maint.)			4 035.08
4740 (Salaries & Wages)			318 000.00
4780 (Employee benefits-leave pay)			9 323.86
4800 (Telephone)			4 799.11
4850 (Fair value adjustment)			-18 000.00
4880 (Loss on Exchange)			380.00
Total Expense			641 473.04
Nett Profit Before Tax			<u>-219 543.94</u>
Pastel Evolution (Registered to Pastel Evolution Educational Version)			

Extract from the statement of financial position of Exclusia Limited as at 31 March 2014:

Balance Sheet

Balance Sheet

Page 1 of 2

		<u>Actual</u>	<u>P Y Actual</u>
Assets			
Fixed Assets			
6000>010	Buildings>Acc. Depreciation	(103 312)	(75 136)
6000>020	Buildings>Cost	1 878 400	1 878 400
6100>010	Computer Equipment>Acc. Depreciation	(23 400)	(17 550)
6100>020	Computer Equipment>Cost	46 800	46 800
6200>010	Furniture & Fittings>Acc. Depreciation	(30 500)	(22 875)
6200>020	Furniture & Fittings>Cost	61 000	61 000
6300>010	Motor Vehicles>Acc. Depreciation	(15 625)	-
6300>020	Motor Vehicles>Cost	150 000	-
6500>010	Plant & Machinery>Acc. Depreciation	(75 413)	(166 667)
6500>020	Plant & Machinery>Cost	1 508 250	500 000
6600	Land	1 000 000	1 000 000
Total Fixed Assets		4 396 201	3 203 972
Investments			
6700	Invetsments	400 000	400 000
6800	Investment - Shares in Deco Ltd	270 000	-
Total Investments		670 000	400 000
Current Assets			
7450	VAT Input	368 192	-
8420	Current Account	436 809	675 000
Total Current Assets		805 001	675 000
Inventory			
7400	Stock	522 571	950 000
Total Inventory		522 571	950 000
Accounts Receivable			
7100	Receivables Control	279 413	748 500
Total Accounts Receivable		279 413	748 500
Total Assets		6 673 186	5 977 472
Equity & Liabilities			
Equity			
5110	Share Capital Class A	800 000	800 000
5120	Share Capital Class B	100 000	100 000
5210	Retained Earnings	4 077 472	4 077 472
Net Profit (Curre Net Profit (Current Year)		(219 544)	-
Total Equity		4 757 928	4 977 472
Long Term Liabilities			
5400	Loans Payable	1 000 000	1 000 000
5420	Long term loan: Hyundai Soweto	171 000	-
Total Long Term Liabilities		1 171 000	1 000 000
Current Liabilities			
9150	Provision for Warreny Repairs	11 000	-
9300	Purchases Accrual	(1)	-
9420	Interest Accrued	50 000	-
9450	Provision for leave pay	6 692	-
9620	VAT Output	261 056	-
Total Current Liabilities		328 747	-
Accounts Payable			
9100	Payables Control	415 510	- 4
Total Accounts Payable		415 510	-
Total Equity and Liabilities		6 673 186	5 977 472

Additional Information:

1. The cash paid to suppliers and employees was correctly calculated as R1 049 743.

REQUIRED:

- 2.1 Calculate the cash received from customers for Exclusia Limited for the reporting period ended 31 March 2014. (3)
- 2.2 Prepare the note reconciling profit before tax to cash generated from operations for the cash flow statement for Exclusia Limited for the reporting period ended 31 March 2014. (15)

SHOW ALL WORKINGS

[18]

Question 3**(12 marks)**

Pots (Pty) Ltd is a well-established company with an excellent reputation. The company has a reporting date of 31 December.

On 1 January 2013 Pots (Pty) Ltd has acquired all the shares in Pans (Pty) Ltd from the former owners.

The consideration will be settled as follows:

- A cash payment of R2 000 000
- Transfer of machinery with a fair value of R1 200 000 and a book value of R 900 000.
- 50 000 Class A shares in Pots (Pty) Ltd. On the date of acquisition, the shares in Pots (Pty) Ltd were worth R10.00 each.
- An additional cash payment of R500 000 on 31 December 2013, if the profit of Pans (Pty) Ltd for the reporting period ending 31 December 2013 is greater than R1 million.

A specialist confirmed on the date of acquisition that the probability of Pans (Pty) Ltd reporting a profit of greater than R1 million is 75%.

The following is an extract from the statement of profit or loss and other comprehensive income for Pans (Pty) Ltd for the reporting period ended 31 December 2013:

Revenue	10 500 000
Cost of Sales	(6 600 000)
Gross Profit	3 300 000
Profit after tax	1 666 500

REQUIRED:

- 3.1 Prepare the journal entries for Pots (Pty) Ltd on the date of acquisition 1 January 2013. (8)
- 3.2 Prepare the journal entries for Pots (Pty) Ltd on the 31 December 2013. (4)

SHOW ALL WORKINGS

[12]

Question 4**(25 marks)**

Strawbabies (Pty) Ltd is a farm that exports strawberries from South Africa to Europe. On 1 July 2012 Strawbabies (Pty) Ltd bought 60 000 Class A shares in Melon (Pty) Ltd and paid R510 000. On this date Melon (Pty) Ltd had 75 000 Class A shares in issue, a share capital of R100 000 and retained earnings of R550 000. The assets and liabilities of Melon (Pty) Ltd were considered to be fairly valued on this date.

Statements of financial position as at 30 June 2014

	Strawbabies (Pty) Ltd R	Melon (Pty) Ltd R
Assets		
Non-current assets	1 450 000	700 000
Property plant and equipment	450 000	300 000
Property plant and equipment: Cost	800 000	400 000
Accumulated depreciation	(350 000)	(100 000)
Loan to Strawbabies (Pty) Ltd	-	400 000
Investment in Melon (Pty) Ltd at fair value	1 000 000	-
Current assets	550 000	1 000 000
Trade debtors	200 000	400 000
Inventory	300 000	600 000
Bank	50 000	
Total assets	2 000 000	1 700 000
Equity and Liabilities		
Equity	1 300 000	1 100 000
Class A share capital	50 000	100 000
Retained earnings	1 250 000	1 000 000
Revaluation reserve	-	-
Non-current liabilities		
Loan from Melon (Pty) Ltd	400 000	-
Current liabilities	300 000	600 000
Trade creditors	300 000	400 000
Bank overdraft	-	200 000
Total equity and liabilities	2 000 000	1 700 000

Question 4 (continued)**Statements of profit or loss and other comprehensive income for the reporting period ended 30 June 2014**

	Strawbabies (Pty) Ltd	Melon (Pty) Ltd
	R	R
Profit before investment income	380 000	260 000
Dividends received	24 000	20 000
Fair value gain on investment	220 000	-
Profit before tax	624 000	280 000
Tax expense	-224 000	-60 000
Profit for the period	400 000	220 000

Other information:

1. During the reporting period ended 30 June 2014, Strawbabies (Pty) Ltd declared and paid dividends of R60 000, and Melon (Pty) Ltd declared and paid dividends of R40 000.
2. Strawbabies (Pty) Ltd carries its investments in financial instruments at fair value with changes in fair value recognised in profit or loss in the reporting period in which they are incurred. The fair value gain on investment for the reporting period ended 30 June **2013** was R270 000.
3. Melon (Pty) Ltd has not issued any shares during the current reporting period, however Strawbabies (Pty) Ltd issued 10 000 shares at R1 each on the 1 January 2014.
4. The balance of retained earnings on 1 July 2013 of Strawbabies (Pty) Ltd was R910 000.

REQUIRED:

- 4.1 Prepare the analysis of owner's equity of Melon (Pty) Ltd for the Strawbabies Group as at 30 June 2014.

(8)

- 4.2 Prepare the consolidated statement of changes in equity for the Strawbabies Group for the reporting period ended 30 June 2014.

(17)

SHOW ALL WORKINGS

[25]

Question 5**(16 marks)**

Chef Boss (Pty) Limited is in the food industry and has stores all over South Africa. They have been performing very well and as a result, they have surplus cash on hand and would like to invest in either one of the following companies:

- Master Cook (Pty) Limited – the company that operates restaurants in Johannesburg.
- Heaven's Kitchen (Pty) Limited – the company operates deli stores in and around Durban.

The financial director is not certain which of these two companies Chef Boss (Pty) Ltd should invest in and has therefore presented the statements of financial position for both companies as at 31 December 2013, as well as an extract from their statements of profit or loss and other comprehensive income for the reporting period ended 31 December 2013.

Statements of financial position as at 31 December 2013

	Master Cook (Pty) Ltd	Heaven's Kitchen (Pty) Ltd
ASSETS		
Non-current assets		
Property, Plant and Equipment	1 502 000	912 550
Financial Assets	<u>660 000</u>	<u>156 000</u>
	2 162 000	1 068 550
Current assets		
Inventory	660 000	700 000
Trade receivables	29 000	681 000
Bank	<u>-</u>	<u>133 200</u>
	689 000	1 514 200
TOTAL ASSETS	2 851 000	2 582 750
EQUITY AND LIABILITIES		
Equity		
Share capital Class A	100 000	100 000
Retained earnings	<u>1 195 000</u>	<u>528 000</u>
	1 295 000	628 000
Non-current liabilities		
Long-term loan	600 000	1 039 000
Current liabilities		
Trade payables	758 000	915 750
Bank Overdraft	<u>198 000</u>	<u>-</u>
	956 000	915 750
TOTAL EQUITY AND LIABILITIES	2 851 000	2 582 750

Question 5 continued....

Extract from the statements of profit or loss and other comprehensive income for the year ended 31 December 2013:

	Master Cook (Pty)Ltd	Heaven's Kitchen (Pty) Ltd
Revenue	7 500 000	9 900 000
Cost of Sales	(4 600 000)	(6 890 000)
Gross Profit	2 900 000	3 010 000
Dividends Received	220 000	260 000
Finance Costs	(148 500)	(324 000)
Other operating expenses	(1 979 000)	(2 065 000)
Profit before tax	992 500	881 000
Income tax expense	(376 000)	(467 000)
Profit after tax	616 500	414 000

REQUIRED:

- 5.1 Name the requirements for financial ratios (4)
- 5.2 Calculate the following ratios for both Master Cook (Pty) Ltd and Heaven's Kitchen (Pty) Ltd and state which is the better performing company:
Use the following layout for your answer:

	Master Cook (Pty) Ltd	Heaven's Kitchen (Pty) Ltd	Better Performing Company
Return on Assets			
Gross profit margin			
Cash Ratio			
Financial leverage Ratio			

(12)

**ROUND ALL CALCULATIONS TO TWO DECIMAL PLACES
SHOW ALL WORKINGS**

[16]

Question 6**(16 marks)**

Bricks (Pty) Ltd had 100 000 Class A shares in issue on 1 July 2012. The company also had 30 000 15% cumulative Class B shares issued for R1 each. The following share movements occurred:

- On 31 August 2012 20 000 Class A shares were issued for R1.50 per share
- Due to a diluted share price, on 30 November 2013 the directors authorised a share consolidation where every 3 Class A shares were converted to 1 Class A share.
- On 1 January 2014 Bricks (Pty) Ltd bought back 5 000 of its Class A shares for R2.50 per share.

Additional information:

- Profit after tax for the reporting period ended 30 June 2014 was R800 000 (2012-R750 000).
- Class A dividends declared for the reporting period ended 30 June 2014 were R55 000 (2012-R50 000)
- The dividend for the Class B shares was declared and paid for both years.

REQUIRED:

- 6.1 Prepare the earnings per share note as it would appear in the notes to the financial statements of Bricks (Pty) Limited for the reporting period ended 30 June 2014.

SHOW ALL WORKINGS**[16]**